

Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Degree Programme in International Business

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Real estate demand and supply in South Karelia among Russian citizens affected by recent external and internal factors

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Abstract

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Real estate demand and supply in South Karelia among Russian citizens affected by recent external and internal factors, 39 pages, 2 appendices

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The purpose of the study is to analyze external and internal factors which affect supply and demand on real estate market. The objectives of the study are following: to gain a deeper understanding and theoretical knowledge on real estate industry concept, to represent concepts of supply and demand to the audience, and to make the study as transparent as it can be about the current real estate situation for potential customers and realty market players.

The theoretical part consists of the information about real estate industry, types of realty on the global market, an overview of South Karelia real estate market for Russian citizens, and the definition of a Russian customer. Also, concepts of supply and demand are presented in the study. Moreover, internal and external factors impacting them are included. The information was gathered using topic related literature, Internet sources and specialized magazines.

Research method used for the current study was qualitative. For the empirical part, semi-structured interview approach was used as a tool for acquiring necessary data from respondents.

Research outcomes were collected and presented through generalization of empirical outputs. The outcomes represent a clear vision of what are exact external and internal factors are influencing supply and demand of the real estate in the current market situation.

Keywords: real estate, internal and external factors

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1 Introduction

1.1 Background of the study

The nature of the real estate business is quite restless. The overall field of realty in every country's economy plays vital role in it. Due to the fact that the market has its ups and downs, and can be described in total as cyclical one, it is highly fluctuated. The demand and supply in housing facilities are under constant changes. Some of the changes are planned, but most of them are very difficult to predict (TheTruthAboutRealty.com, 2015).

When it comes to real estate, the main indicator refers to the purchasing power of potential buyers. Its rate is also prone to circumstances. The demand in housing facilities, from the potential customer's perspective, is based on number of factors which are leading to final decision making. The act of purchasing is grounded on deeper analysis of external and internal factors which affect potential customer, and eventually pushes him to final decision. The act of supplying the market with any commodity is also prone to fluctuate, due to its own factors and circumstances, which also can be external and internal ones.

The countries of modern Finland and Russian Federation have their long-lasting and mutually beneficial relationships in all the aspects. Current relations between Russia and Finland can be described as a positive economic cooperation in both ways. At present time, between Russia and Finland there are about 90 interstate and intergovernmental documents regulating practically all the areas of bilateral cooperation, including international realty purchasing operations (Berg & Ehin, 2009)

Finnish real estate market has been highly valued among Russian citizens now for more than 15 years. It can be demonstrated by the constantly growing number of requests on the real estate market of Finland for purchasing properties mainly to be used for living needs.

However, the tendency in the past few years is completely reversal. In the year 2014 Russian citizens purchased 254 property objects in Finland. It is around a half of the indicated numbers in the year 2013. From 2009 to 2013 Russians

were purchasing about 400 living properties each year. The average number of sales taken by Russians on the real estate market in Finland is 50 realty objects each year. (Yle.fi, 2015.)

Petegirich (2015) says that South Karelia region used to be the most popular place for Russians to purchase properties in the year 2008, on the peak of interest. In 2008 overall number of purchased living properties by Russians was 232. In 2014 the number decreased to less than 100. South Karelia leads in the number of cottages owned by the Russians. In the year 2012 their share reached 5%.

The aim of this thesis is to analyze and to show the society on both sides of real estate cooperation how exactly purchasing power of Russian citizens willing to buy facilities in real estate market in the Finnish private sector is changing, why it has its changes and what risks take place for the realty sellers in present days due to recent fluctuations of Russian economy, and many other factors.

The topic is worth researching under the fact of highest concern among the Russian citizens about the purposefulness of their personal investments made in the Finnish real estate market, better awareness of real estate market demand and supply situation in Finland and factors which can influence its fluctuations. Also, the study will lead to the transparent society knowledge about the Finnish real estate market field in whole.

All the facts mentioned above and numerous of additional ones pushed the author for deeper discovering the nature of factors which have an effect on supply and demand on the market, and author's personal interest in field and theme.

1.2 Objectives

The first objective of this study is to gain a deeper understanding and theoretical knowledge of real estate industry concept, what it is in general, and what types of commodities the overall industry can provide for its customer.

The second one is to represent concepts of supply and demand to the audience. The theoretical knowledge in conceptuality will lead to better under-

standing of the nature of relationships in any business, within any market. Also, supply and demand are economic terms, and as every economic term it is prone to be affected by different internal and external factors, which also will be covered.

Finnish real estate market with inclusion of a typical Russian customer in practice is also one of the author's aims for the study and may be considered as the third objective.

Besides all the objectives mentioned above, the top rated goal which stands in front of the author is to make the study as transparent as it possible, in order to create an ease for understanding for potential customers and realty market players.

1.3 Delimitations

The real estate field of business in general is quite a wide concept to undertake in one piece, with numerous of sections and sub-sections. That is why the author has set several limitations which will be used as a basis for framing the study.

Firstly, this research covers only one specific region of Finland, South Karelia. All the empirical data were gathered according to the buildings, which are registered in the South-Karelia region. South-Karelia is a part of Finland, and it is divided into ten municipalities. The biggest two of them are the cities of Lappeenranta with the population of 72,794 and Imatra with 28,219 people (Stat.fi, 2015).

The second delimitation stands for sector of realty on the market chosen for study. South Karelia region is a cluster with the highest rate of interest among Russian citizens in buildings constructed for living. It will cover only a private sector.

The third limitation is the personality of the buyer. In this case it is a Russian citizen, who permanently lives and works in the home country, Russian Federation, but owns or is willing to own a real estate in Finland.

The study does not include constructions or buildings purchased by individuals for business needs. It involves local retailing points of sales of any kind of products. It also does not include constructions being purchased for warehousing and storing goods for their further realization on the sales market. The study also does not include buildings and facilities owned by individuals or group of individuals who have registered a company (Oy, Oyj) in the Saimaa region and purchased a number of buildings constructed for living needs, but implementing rent activities of any time period in order to gain profit.

Also, the study does not include and analyze the information of buildings or any other type of living facilities which were purchased, or will be purchased by individuals who have double-citizenships, in this case Finnish-Russian one, in order to gather most exact numbers for providing the most accurate information.

As for the theoretical delimitations, the author covers the overall definitions and concepts of supply and demand in general. Also, the current study includes a theory related to internal and external factors, which can influence supply and demand. The theory of the thesis also includes the basics about the real estate industry and its types. However, the study does not include a theory stands for correlation between supply and demand.

1.4 Research questions

The main research question the author highlights in the study is: **What kind of external and internal factors are influencing supply and demand of the real estate current situation on the real estate market should be analyzed and taken into consideration from the perspective of potential customers and real estate market players?**

It would be inefficient to try approaching the research problem in one piece. That is why the author has chosen to separate the research problem into several research questions in order to gain the holistic view from every angle. Answers for the following research questions will be presented in a study:

- 1) What is real estate industry? What types are presented on the market globally and in South Karelia for Russian customers?

- 2) Who is a Russian customer on South Karelia realty market?
- 3) What are external and internal factors in supply influencing? Which factors have the most crucial impacts on realty market players?
- 4) What are external and internal factors in demand influencing? Which factors have the most crucial impacts on potential customers?
- 5) What are external and internal factors affecting supply and demand in realty market in practice?

1.5 Research method

The purpose of the study is to analyze the external and internal factors, which affect supply and demand on real estate market. Collection of the necessary data and its in-depth understanding is not a possible process without taking into consideration numerous of details which could be ignored, if not using qualitative method of researching.

The reason for using qualitative method was used to gain holistic view on the phenomenon from a closer perspective (Carson & Gilmore, 2006). Besides, the topic framed the way that a large number of participants is not needed, as for quantitative method, since the phenomenon to be investigated implies under itself certain type of respondents. The chosen topic and delimitations structured in the manner that their generalization is not needed deeper than the frames set.

Another way to acquire the data from the respondents is semi-structured interview. The number of open-ended questions will be formulated for the interviewees. The respondents will be asked to give detailed answers, but with possibility to express their own thoughts and conclusions over the topics given if they are willing to.

Respondents or interviewees were divided into two groups which were: realty companies and potential customers.

By using the above mentioned approaches the author will gain the opportunity to study the chosen social phenomenon in a deep comprehensive manner and gather respondent's crucial opinions and attitudes, which eventually makes the received information most valued.

The above presented method was chosen as the most convenient and purposeful because it will give the interviewer possibility to interact, interrupt and change the way interview flow immediately, if necessary. It will give also advantages for the interviewees to share different opinions, which will also lead to the rich data and understanding the problem.

In general, qualitative research generates detailed, rich and valid information, and this can really contribute to in-depth understanding of the context and answering research questions.

1.5.1 Companies chosen for the study

There are several companies which the author aimed to reach for acquiring necessary empirical data. The following companies were chosen.

Name of the Company	Basic Information of the firm
FinMa	FINMA company was founded in 2004. Focusing only on realty in Finland: the purchase and sale of real estate, construction of houses and their maintenance. Additionally provides Russian clients the support and consults in the questions of the purchasing and constructing houses on the territory of Finland (Finma.ru, 2015).

Finnish Properties Biport LKV	Company "Real Estate Finland - Biport Oy LKV" or "Suomen Kiinteistöt - Biport Oy LKV".Finnish real estate company which was founded in 2002. The company celebrated in their tenth anniversary in 2012, very firmly on the market and has the highest AAA credit rating for the last three years in a row (Finnpro.fi, 2015).
InAndOut Oy	Finnish legalized agent "IN AND OUT Oy", LKV provides a full range of services in real estate in South-Eastern Finland. Most of the objects are located in Imatra, Lappeenranta, Savonlinna and other developing municipalities, such as Ruokolahti, Puumala, Parikkala, Rautjärvi, and other Taipalsaari (Inandout.ru, 2015).
VipCon Oy	Certified real estate agent providing legal support and a full range of services throughout the process of buy-sale of the property, from selecting the desired option - to registration with the further service. Employees have many years of experience, fluently speaking Finnish, English and Russian languages, well aware of the culture and history of the country and Finnish mentality. Having more than 70,000 different types of real estate (Vipcon.fi, 2015).

<p>Honkarakenne Oyj (Honka)</p>	<p>Finnish company Honkarakenne Oyj (Honka) - a large international concern with offices in 30 countries. Each year, the company's specialists are responsible for the construction of about 200 houses all over Finland. By combining under the brand Honka expertise of the best companies in the South-Eastern Finland, they created a complete package of services for buyers from Russia - from the purchase of land to care for ready house and yard (Honka.fi, 2015).</p>
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Figure 1 – Companies chosen for the study

All in all, there are five companies chosen by the author for interviewing and executing empirical part of the study. The above mentioned firms were chosen based on the results provided by the search engines, among the companies operating on realty market in South Karelia region. Respondents for acquiring empirical data from the realty companies were managing directors, company's representatives responsible for Russian customers sectors, and sales managers. First contacts were established via e-mails and phone calls. Further interviews were conducted by phone conversations and personal meetings.

1.5.2 Potential customers chosen for the study

In addition to data acquired from the companies, number of potential customers were interviewed by the author, in order to understand the nature of their doubts and gain the most accurate information of how the audience's mood and purchasing power is changing in modern real estate market conditions.

The respondents among potential customers were chosen based on the characteristics of a Russian customer presented further in the current study (p.16). The respondents for the study are not the customers of the chosen companies,

due to the fact that the companies refused to reveal personal customer information. Chosen potential customers were reached personally and interviewed individually.

1.6 Theoretical framework

In this section the author is developing theoretical framework for the current study. The author will begin with overall sight on real estate as a concept and types of it presented on the global market. Furthermore, a quick overview of the Finnish real estate market presented in the South Karelia region for purchasing by Russian citizens will be provided. The specification of a Russian customer will also be given in the study. Continuously, the economic definitions of supply and demand will be presented in the text, and external and internal factors influencing them will be submitted. External and internal factors will be divided into separate sections for each of the concept devoted to supply and demand in the study. These factors will be further analyzed in impacting the supply of realty on the market among the selling companies, and demand and purchasing power of potential customers.

In the theory part the author will be using secondary data as a core one. Mostly specialized magazines related to realty spheres, supply and demand books and studies, and previous researches on the realty market carried out by other authors will be used for collecting the data.

1.7 Structure of the study

This study consists of the theoretical and empirical parts. In the first part of the thesis the author will introduce the overall concepts related to the topic, based on the information gathered from the scientific studies, books, professional magazines and web sources.

The second part of the thesis represents the empirical data using the semi-structured interview and qualitative approach. The data were collected by using personal face-to-face interviews. The number of market players who operate in South Karelia region in the field of real estate were chosen for interviewing.

2 Real estate

2.1 Real estate industry

According to Ebisike (2010), a common real estate is defined as follows: “A land and all things that are permanently attached to it. These attachments include improvements made to add to the value of the land, such as irrigation systems, fence, roads, or buildings”. When the buyer purchases a land with all the belongings, in addition he acquires specific rights related to purchased realty. The rights include in its total controlling, exploiting, developing, occupation and improvement implementations.

Additionally, the official owner has a right to lease, sell or assign the realty he owns. The rights can be applied not only to the specific land in ownership, but also to commodities which are located below and above the ground. However, it needs to be mentioned that in certain countries and states the right to sell and lease the realty can be regulated by the governmental authorities, and not necessarily in owner’s favor (Ebisike, 2010).

2.2 Real estate types

Ebisike (2010) states that the real estate industry is a wide field of area. That is why it was divided into separate types in order to better define and manage the assets. Realty agents divide it into seven main categories:

Improved Nonbuilt Land

Type of realty most likely including in itself an empty land space, which can be used in the future as factor of production of any type. In other words, it is a vacant land which can be improved by the owner for profit need (Ebisike, 2010).

Residential Properties

The place to live in, is a primary need for a human. Thus, the residential properties are constructed. This type of realty is building up with taking into consideration the factors as availability to develop on the land, overall population and its potential for growth, local government policies, and access to transportation and

other factors depending on what the decision in availability to construct appears. There are four main types of residential properties: single-family and small multifamily properties; garden apartment buildings; mid-rise apartment buildings and high-rise apartment buildings (Zeller, 2006).

Commercial Office Properties

The type of property is constructed for commercial activities. These properties can be found in both urban and suburban environments and are occupied by businesses for conducting business activities (Zeller, 2006).

Industrial Properties

Industrial properties mainly represent warehousing zones and manufacturing plants, which are most likely vast in size, and built horizontally. Their standards are fluctuating due to the special needs of inhabitants, who temporary or constantly are involved in the production processes (Ebisike, 2010).

Retail Properties

Retail properties are type of constructions which are mainly built with easy accessibility for tenants of residential properties. Among them are commonly highlighted: shopping centers, malls, power constructions, specialty and lifestyle centers, and others (Ebisike, 2010).

Hotel Properties

Hotel properties are type of buildings constructed mainly for guests of special geographical zone. The hotel property provides guests with a variety of services such as: room renting for a specified period of time, restaurants on site, valet parking, and meeting and convention facilities (Sheela, 2002).

Mixed Use Properties

Mixed use property is an innovative concept in realty industry which includes a combination of above mentioned realty type. Such properties are mainly used during the downsizing of particular real estate market. It can include two or more types of realty all in one (Ebisike, 2010).

All in all, the main difference among all the realty types is in size of the constructions, nature and type of tenants using them.

2.3 Real estate market for Russian citizens in South Karelia

Realty market in South Karelia region represents a vast variety of types of constructions to be purchased by a potential customer. However, the delimitations of the current study include only residential properties, and only a specific type of buildings which are town houses, summer cottages, and cottages. These types of living facilities are mainly a part of residential property, and their subtypes are: single family and multifamily properties. Also, the cultural factor of Russian citizen purchasing property in South Karelia in Finland is included.

According to Chuchakin (2014), the highest rate of purchases made by the Russians is single family properties.

2.4 Russian customer

The current study has pushed the author for creating a portrait of an average potential Russian real estate property. According to Davingo.ru (2014) survey, a potential bidder has the following characteristics:

The overwhelming majority of Russian real property owners in Finland are residents of St. Petersburg and Leningrad region, whose share accounted for 84% of total deals. Residents of Vyborg have 7% of the total number for Finnish realty. Moscow residents make up 9% of the total number of Russians who owns residential property in Finland. According to the survey, cottages in Finland in most cases are bought by people with higher education: 89% of the Russian owners of country houses have gained a degree. One-third are managers, a little less than one-third are businessmen. 27% of property owners from Russia are usual employees, one tenth are housewives. One fifth of buyers are in the age category from 25 to 34 years, 29% are older generation - from 45 to 54 years (Davingo.ru, 2014).

Finally, the most extensive age group is from 35 to 44 years old. Thus, the average buyer is a middle-aged resident of St. Petersburg with higher education

and income of the family from 80 to 160 thousands rubles per month (1500 to 3000 Euros respectively, exchange rates from 15.04.2015) (Tranio.ru, 2012).

On average, Russians spend 119 days per year in their Finnish properties. However, their costs account for a significant share of the budget of local municipalities: only for the resettlement of their properties abroad Russians spend 18.7 million Euros per year. Other expenses represent 86 million Euros per year (Davingo.ru, 2014).

3 Supply

3.1 Defining supply

In order to have a full understanding of the picture it will be advisable to introduce the definition of supply in general. Overall supply definition is the following: “A fundamental economic concept that describes the total amount of a specific good or service that is available to consumers” (Investopedia, 2015).

Moreover, with the general definition of supply, supply definition in economics has its details and represented as follows: “The supply of a commodity may be defined as the amount of that commodity which the sellers or producers are able and willing to offer for sale at a particular price during a certain period of time.” (Venugopal, 2006).

That leads to more specific understanding of supply on the sales market, on the basis of which it can be concluded that supply is a constantly changeable unit and needs to be considered along with terms of price and time. These terms are also tend to be affected by the factors which can be divided into external and internal ones. In this study they will also be overviewed.

3.2 Factors affecting supply

Every company which is supplying a certain commodity to society is prone to deal with numerous circumstances. The general knowledge about the factors which can affect every business is an asset for every market player. What is more important is to gain a precise picture of what exactly the factors are in-

fluencing an exact market player. Basically, all the factors can be easily divided into two main categories for a company that supplies a certain product or service. These are external and internal factors. In the following section there will be a theory provided on them.

3.2.1 Internal factors

According to Hundekar (2010), generally speaking, internal factors are ones which can affect every business society or organization from the inside. These can be also called micro economical ones. The good thing to be mentioned about internal factors, unlike the external ones, is that they are amenable to work on and can be changed for the best by the intelligent management of organization.

It is very crucial to recognize strengths and opportunities of the firm from the outside. A bigger importance lies in company's management of internal procedures and focusing on its strengths. There is no ideal list of factors provided elsewhere of the internal approaches which can be taken into consideration by the management of the company and implemented for better results. These factors are unique for every business and every market field.

However, there are several common factors that can be overviewed and changed for best in order to achieve higher performance. The first factor, which can be reviewed by the management of the firm, is the role of the leadership and higher management. The style and approach of the leading company's control department is highly affecting organizational culture in whole. Reasonable management leads to improved human resources of the firm and its internal culture among employees. Proper relationships inside the company turn into better cooperation and collaboration among the staff (Hundekar, 2010).

Success of the company on the market is indicated by its effectiveness in achieving goals. Shared goals inside the firm works as a well harmonious mechanism free from uncertainties and failed instructions. It also should be mentioned that conditions of work strongly impact in team building of every organization. Another factor which can lead every company to better effectiveness is

overall team motivation. Motivation is always a key to successful execution of every beginning and moving power of stronger effort. Among all the other factors influencing internal operations it will be advisable to highlight a proper strategic planning, statement of mission and clear vision of company's future development (Aguilar, 1967).

Moreover, the factor of flexibility of the company is also should be considered by the top management. Preparing for the worst market conditions and forecasting changes in the industry that can not be controlled by the company, is also a preliminary goal for every firm (Hundekar, 2010).

Finally, a company which is operating on the sales market should always improve the overall quality of every aspect in their business to be able for fierce competition with its rivals. Additionally, well managed customer service is also a key to precise understanding of the demand among customers, to supply them best.

3.2.2 External factors

As for the external factors, according to Hundekar (2010), external factors stand for ones that can not be controlled by the company itself. These factors from the economic perspective are called macro economical ones.

More likely these factors affect broad economy at the regional or international scale. Their impact is more applicable for wide population than small companies or individuals. However, certain types of industries are also tend to be strongly influenced by the macro economical fluctuations. They can impact the ability of firms in achieving its goals and business objectives. Also, external factors have force for interrupting into company's decision making process, impugn opportunities and creating risks of any level. According to Harvard Professor Aguilar (1967), external factors can be mainly considered through environmental PESTEL analysis, and includes following uncontrollable forces: Political, Economic, Social, Technological, Environmental and Legal.

Political and legal factors

It is transparent that political factors have a strong influence on different types of organizations, and on the way these organizations are making business in every country. Business society itself does not have any possibilities to affect state mechanism. Therefore, the only way for every firm is to be able to respond fluctuations and rapidly adjust their businesses for the new reality. Being flexible to political decisions is a key to protect the business from uncertainties. Governmental authorities often tend to impose taxes on the final goods or factors of production. If the overall cost of production rises under these circumstances, then the supply is tend to fall, due to insufficient demand for the commodity. Another factor that also can have the effect on supply is subventions, governmental money granted for stimulating suppliers to produce bigger number of commodities, which also affects supply. Politics is a very broad topic to reveal in the study, but it possesses a very long list of its commodities. In addition to main factors presented above, politics has many other means to impact on supply such as: bureaucracy, corruption level, legislative machinery, direct involvement in trade agreements and its control, regulations, etc. (Baye, 1958).

Economic factors

Economic factors also have a strong impact on how supply operates on the market. These factors are strongly impact all parts of business. The business in general can not survive in the market if the conditions of economy will not give a chance to accumulate financial assets of the firm fully powered for reaching profits. These factors are: interest rates, money supply, general price level, consumer credits, costs of production, currency devaluations, inflation, unemployment, overall business society level, credit availability, monetary issues, fiscal policies etc. Inconvenience of economic conditions in general will eventually lead to recession and influence overall business activity. Unfortunately, most of these changes are not predictable by the business society (Aguilar, 1967).

Social factors

Cultural influence does not often influence the business in the very beginning of the activity. Social aspects are most likely impacting welfare of the business in the long-run. Society changes due to uncontrollable circumstances and these fluctuations are tend to affect business against its will. New trends occur and old ones go into history, buying habits change, in-depth educational level, religion and beliefs transform population ups and downs etc. The only thing how business can protect itself from these changes is to establish a sufficient level of mobility inside the market. Additionally, it has to be said that there are three main social aspects which could be taken into consideration by the organization's top management: changes in lifestyle of society and its changeable values, major social problems which permanently worrying the society, and growing consumerism phenomenon (Baye, 1958).

Technological factors

Unprecedented development of technologies is also putting their contribution in the factors affecting supply. Modern history memorizes dozens of occasions which impacted the population life-style and welfare of society. The pace in which technologies are growing nowadays is so rapid that not every organization can keep up with its movement. The technological spurt has overwritten the history and transformed modern practices. It can be said that modern technologies in a way shaped the economics. Companies, which want to compete on every market, should mislay the place in its strategy for rapid changes in infrastructure, research development processes, accessing newest trends in technologies and many more (Aguilar, 1967).

Environmental factors

Natural and ecological environment has created a crucial importance in modern economics of every market field. The trends are in the air that companies of every scale should not only take into consideration nature behavior and how it will affect their business, but they also should be worried about what consumption of nature resources is, while implementing their actions toward profit. From

the perspective of society, every organization is now expected to measure the overall allocation of natural resources used, and use them wisely and properly. Of course, it does not mean that the companies should not anymore consider factors affected them personally such as weather, climate change and global warming (Aguilar, 1967).

4 Demand

4.1 Defining demand

Overall definition of demand is following: “An economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service” (Investopedia, 2015).

Along with overall definition of demand, which can be applied to wide number of areas in human activity, it would be expedient to mention more accurate economic definition in the current study. Thus in economics “demand refers to the desire for a commodity backed by ability to pay and willingness to purchase at a certain price and at a particular time and in a particular market. And can be presented as follows: Demand = Desire + Purchasing Power + Willingness to buy” (Venugopal, 2006).

In the author's opinion, the above mentioned definition is more precise and applicable for the study since it includes factors, which are the part of the analysis of volatile purchasing power of citizens on the market. Without taking into consideration external and internal factors affecting demand, there can be no understanding gained about the nature of customers' doubts and acts.

4.2 Factors affecting demand

According to Sherlekar (2010), “economists society considering demand as a function of price. Higher the price, the lesser the demand and vice versa”. The conclusion is absolutely truthful. Nothing else is affecting the demand for the commodity as the price set for it. This can be considered as a the main determinant of the demand. However, along with the price set for the certain type of product or service, there are still other factors impacting demand are existing

nowadays. The demand also has numerous of internal and external determinants. In the following chapter the author will represent them.

4.2.1 Internal factors

From the previous parts of the study the knowledge gained was that the internal factors are ones which can be affected, changed and modified by an individual's effort. Here are the impacts which fit the framework:

Tastes, fashions and preferences

The demand of the product is highly dependent on opinion of the majority. Changes in tastes, fashions and preferences dictated by the society are strongly affecting demand for a certain product or service. It is important to mention that demand which is based on the behavior dictated by the current trends in society comes quickly to an end. The demand curve has its rapid shift for a positive position, but quickly moves backwards, when the society is oversupplied with a certain product or service (Baye, 1958).

Income

Income of potential customers is strongly affecting potential customer's ability to pay for certain goods or services. Changes in income of population changes the number of goods or services to be sold at the specific price. In practice, changes in income of potential customers do strongly affect the overall demand curve. The economists differentiate two types of goods: normal goods and inferior goods. When the demand for goods increases on the behalf of consumer income rising, it is called normal good. When the demand for goods decreases, even though the income of the potential customers rise, goods are commonly called inferior ones (Baye, 1958).

4.2.2 External factors

As it was mentioned above in the theoretical part, external factors represent the ones that cannot be controlled by the character in any way, or can, but in the very little range. If considering the demand in detail, and its factors, the overall

number of external factors will prevail over internal ones. Economists highlight the next external factors:

Price of Product

Overall economics is based on the relationship between supply and demand indeed. There are number of determinants that affect demand and demand curve fluctuations, but the most significant factor which affect the buying decision of a potential customer is price. Pricing is also one of the Marketing Mix 4 P's, and it is the only one measure that generates profit for the company. For most of the companies, correct pricing strategy can be difficult to gain, since it is always a reflection of market conditions, which are constantly prone to change. And it is the most powerful leverage on purchasing power of potential customers on every market and, as an output, on demand (Aguilar,1967).

Prices of Related Goods

Pricing is a dependant indicator. Changes in pricing of related goods in one place, turns on the positive effect on a demand curve. The substitutes immediately starts to interact due to the changes occur in the field. When the audience is in decision making process it is prone to take into consideration prices of substituted goods and complementary ones. Substitute goods are ones that society tend to use as a replacing one. Complementary goods are ones that consumers used to act with in cooperation (Aguilar, 1967).

General Price level

Another factor that affects demand is general price level. If the government decides to increase general price level, it affects the population's real income, which is decreasing. Decrease in real income of potential customers means decrease in their purchasing power. It leads to the decreasing in purchasing power of potential customers and naturally leads to minimization of demand (Aguilar, 1967).

Change in population

The demand on the market changes significantly, when the same changes have its place in the number of population. In other words, when the population has its ups in number of inhabitants, the number of potential deals rises, and vice-versa. That is why growth of population is another important factor. A rapid growth of population in a specific period of time, allows certain market grow in demand for the goods and services provided (Aguilar, 1967).

Policy of the company

A correct company's policy which is implemented after several customer relationships sessions will influence the demand of the product. A company which is always improving the quality of the products and services provided is doomed to success, which is not – doomed to failure (Aguilar, 1967).

Technological Changes

Our century has it second name of high-end technological one. When it is expected by the society that in the near future one technology will press the current, it will eventually decrease a demand for a recent product presented on the market, due to its close obsolete. Thus, technological factor has its force in nowadays sales market (Aguilar, 1967).

Weather and climate

Weather and climate can also be viewed as a determinant of demand. Potential customers database have their own understanding of what is convenient for them and what is not (Aguilar, 1967).

Governmental Policy

Governmental policy toward specific product or service is strongly affecting demand. There are several ways of how state machinery can affect it. The first one is to manage price frames, meaning that governmental authorities are setting boundaries of minimum and maximum prices for goods or services which are to be sold in the country. When the prices are artificially underestimated,

suppliers tend to produce and supply less, when, on the other hand, customers demand for a bigger quantity. Reversal situation, when the price is artificially overvalued on the market, suppliers will rush for supply and sell bigger quantity of their products, when the potential customers will demand less. Another way the government can affect the demand is to reduce taxes rates, or removing them in total; increasing minimum wages in country. That certain actions implemented by the state machinery will lead to increasing the demand. Opposite changes in governmental policy will eventually lead to a negative effect (Aguilar, 1967).

Change in distribution of income and wealth

General concept of income is the sum of four main components: compensation of employees (net wages, salaries); net income from personal self-employment (including entrepreneurial income); pensions and net transfers and property income (income from buildings in assets and income from other financial assets). The change in distribution of wealth is affecting demand following way: if there is an unequal distribution of income among the population, the overall demand for products and services is lower than if the distribution was equal. In that way, the demand, due to higher percentage of consumption, will be greater (Aguilar, 1967).

Advertisement

Finally, along with consumer tastes and trends on the sales market of every commodity, the huge significance has the power of advertising. The demand is highly influenced by advertisement campaigns the seller executes and spreads in media spaces (Aguilar, 1967).

5 Empirical part

The empirical part of the current thesis was executed using a semi-structured interview as a way of acquiring data. There were two groups of respondents created in order to gain a full picture of the phenomenon on the realty market: Realty company's representatives and potential customers. There were ten par-

ticipants of the interview included in the study, five from each group. All the participants of the survey were reached individually and interviewed by using two different interview plans for each of the group.

5.1 Interview questions

The interview questions were divided into two groups, and two different semi-structured interview plans were created for each of the group, in order to gain full picture on the phenomenon. The overall semi-structured interview plan's layout is similar and consists of the following chapters for both of the respondents groups: Introduction of the Interviewer, Introduction of the topic to be covered, Main questions, Conclusion of the interview. However, the Main Questions chapter differs from Realty Company Sample to Potential Customer Sample in order to cover most precise factors influencing supply and demand.

5.1.1 Realty Company Main Questions Sample

The following questions were asked from the Realty Company's representatives in the Main Questions Chapter:

1. When was the first time you indicated fluctuations in sales for Russian customers in the firm?

Here the interviewer is expecting to gain the information from the interviewee about certain period of time when he or she indicated decrease in sales among Russian customers.

2. What segments of residential property were affected the most in the industry?

The interviewer is expecting to gain the information of what are segments of living commodities that were harmed strongly than others.

3. Is there any inside problems during the period of downsizing sales were indicated by the company?

The interviewee is expected to name specific problems which accrued inside the company, which could affect its performance.

4. What can you say about following external factors: Political and legal factors, economic factors, social factors, technological factors, environmental factors? Did they affect your company? How? If not – why?

Here, the interviewer is expecting to get from the interviewee the most full and precise picture of what are the main factors which affected the realty business, and certain firm, the most? How strong and how exactly did they affect it?

5. In your opinion, what will the future trends be in the industry?

Here, the interviewee is expected to share his or her vision of realty market in the region in the near future. How it will be developing? What trends are in his or her opinion might accrue?

6. What will be different for the Russian customer?

The interviewer is expecting to achieve information on how could the market differ in near future specifically for the Russian customer.

5.1.2 Potential Customer Main Questions Sample

The following questions were asked from the Potential Customers in the Main Questions Chapter:

1. When have you changed your mind for purchasing decision?

Here the interviewer is expecting to gain the information from the interviewee about a certain period of time when he or she decided to postpone, or give up their purchasing idea.

2. What are the main determinants which were pushing you for potential purchasing realty in the country abroad? Why Finland? Why Saimaa region?

The interviewer is expecting to gain from the interviewee a basic knowledge of why the potential customer has an idea of purchasing realty not in the home country, but in Finland, and why specifically in the Saimaa region.

3. What are the internal factors that impacted your potential purchasing power in the negative way: tastes, fashions, preferences, personal income?

The interviewer wants to achieve the information from the respondent of what the internal leverages exists which affect purchasing decision.

4. What can you say about following external factors: price of the product, prices of related goods, general price level, policy of the company, technological changes, and environmental factors? Do they affect your purchasing decision?

Here, the interviewee is expected to name and explain certain external factors which affect his or her purchasing decision.

5. Are you still considering Finland as a country for purchasing property abroad?

The last question is exists in order to understand if there still exists a desire in purchasing property in Finland taking into consideration all the factors named above.

5.2 Empirical findings

The aim of the undertaken research was to provide knowledge of external and internal factors existing and influencing supply and demand of the real estate nowadays on both sides. Which of them in the current situation should be analyzed and taken into consideration from the perspective of both, potential customers and real estate market players? Semi-structured interviews showed its outcomes, and the decision has been made to generalize all the data for two separated groups.

The outcomes for realty companies showed that all the companies involved in the survey indicated changes in Russian purchasing power on the realty market practically at one period of time: between the end of the summer 2014 and beginning of 2015. The decrease in demand was tracked for more than half of the

year. Economic sanctions were only a first step in decreasing sales, inconvenient currency rate was the last one.

Among the realty which was affected less than other sectors, respondents are unanimous in the opinion that luxurious real estate harmed less than other segments of residential property. Middle class realty in the Saimaa region harmed more than any other segments of living commodities on the market. However, experts are common in the opinion that in the current market conditions everybody suffered.

According to the internal factors which somehow could affect company's performance on the market, respondents are pointing out the lack of motivation of employees due to low flow of customers, and thus, lower salaries.

As for the external factors, realty market players are pointing out several of them. Firstly, among the political factors respondents name the fact that no Russian citizen can acquire residence permit, even though he or she is purchasing comparatively expensive realty in the country. It is, in the opinion of respondents, heavily influencing overall purchasing decision making of potential customers, and so, influencing realty companies on the market.

Among the economic factors experts are pointing out suspension of money lending by the Finnish banks for Russian citizens accrued to be another reason of demand decreasing, and current devaluation of ruble.

Among the social factors which were named by the respondents that harm realty company's and country's image in whole, there are: rumors which accrues on the Russian-Finnish web portals and in local newspapers, indifference of Finland on international realty exhibitions, plans of Finnish governmental machinery to ban purchases of realty by foreigners. Also, respondents point out that there is a problem with losing a visa for their customers, when they are making a small offense inside the country, e.g. exceeding speed limit.

For the technological factors, respondents name only the fact of expensiveness of labor costs, but this problem accrues only if customer is aiming to construct

residential property by himself on the purchased land. According to the interview outcomes, there are not many customers doing it.

There is only one sufficient environmental factor which harms sales named by the respondents: the presence of pulp and paper mills in the Saimaa region.

As for the future trends, experts do not want to predict any, but they are all positive in one. The base of potential customers is huge enough. Only the residents of Moscow and Saint-Petersburg make more than 22 millions of people, and even a little percentage of that population is making a good audience for future purchases.

As for potential customers, opinions from them also were collected and generalized for better understanding by the audience. The situation with the changing of purchasing intention is fluctuating between the early autumn 2014 and the beginning of 2015 year.

Among the main positive determinants that pushes Russian citizens in buying property abroad there is a common sense exists, that having a property abroad gives a theoretical possibility for owners to someday leave the home country and start over in another place.

As for the fact why choosing Finland, respondents highlighting the fact that Finland has a sustainable economy, high security of the civil rights, better ecological conditions for living and the fact that Finland is the closest abroad country to possibly immigrate in.

Saimaa region attracts Russian citizens first of all because of the geographical location; Russian-Finnish border is only couple of hours to reach using a car by the residents of the Saint-Petersburg and regions, and approximately 12 hours for Moscow residents and regions correspondingly. Secondary, potential customers are pointing out that South-Karelia is a region with highly developed infrastructure and at the same time a peaceful place to be in. Moscow and Saint-Petersburg are very intense cities to relax in.

However, there are certain negative factors nowadays which impact Russian citizens' purchasing decisions. First of all, potential customers are highly concerned about future currency rates fluctuations. Buying now still seems to be a reasonable investment for potential customers. But what to do in the future, if the ruble starts weakening again, and possessing property abroad will become harder?

Second, the respondents are common in sense that if the gap between prices for realty in Finland and other countries reach dramatic scales, then it will be wiser to find another option to invest money in. Moreover, general price level in Finland is another indicator that can push potential customers to review their decision. The overwhelming majority of respondents are affirming the fact that Finland was never a country with low level prices for products needed for comfortable living.

However, there are several factors that do not impact purchasing intention of Russian citizens on the Finnish realty market. The first one is a realty company's policy and their pricing formation. Most of respondents of the survey showed their awareness of Finnish labor expensiveness and their willingness to still pay the cost for the services provided.

Moreover, potential customers interviewed for the study do not see any technological changes which might affect their purchasing will. It is associated with the fact that in the public opinion, Finns are presented as most qualified builders by that time.

Finally, environmental factors also do not affect majority's purchasing intention, since potential Russian customers are highly aware of the environmental conditions in the country, since they are more or less similar with their home country.

Nevertheless, all the respondents were quite positive in the fact that their intention in buying property in Finland is still strong enough, even though there are temporary challenges exists.

6 Conclusion

6.1 Summary and discussion

The aim of the study was to collect and analyze the knowledge of what kind of external and internal factors influence supply and demand of the real estate current situation should be analyzed and taken into consideration from the perspective of both, potential customers and Real Estate market players. The overview of Real Estate in general, concepts of supply and demand, external and internal factors existing were presented to the reader in the theoretical part of the current study. Furthermore, the theoretical knowledge of these factors was used in order to create samples for the semi-structured interview plans and undertake empirical part of the present study. The research outcomes of the empirical data were further analyzed, generalized and presented to reading audience.

6.2 Recommendations for further research

The current study has numerous of ways to be further investigated. The present study has several delimitations in itself. It includes only one region of Finland, South-Karelia. Further research can be expanded to the whole country. Moreover, it includes only residential property analysis, and the other types of real properties were excluded from the study. As an example, in the future studies there can be commercial property on the Finnish realty market analyzed. Moreover, the current study has delimitation on personality of the buyer, Russian citizen. Further research can include numerous of other potential customers interested in purchasing real property in Finland. Finally, the current study stays for the current market situation. In the future, the topic can be researched again in order to find out what are the new factors affecting supply and demand nowadays, taking into consideration different real estate market conditions.

Figures

Figure 1. Companies chosen for the study, p. 9 - 11

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Appendix 1

Semi-Structured Interview Plan

Realty Company Interview Sample

Introduction of Interviewer	Hello, my name is Bochkarnikov Yan. I am the student of Saimaa UAS, and I am implementing a research concerning the realty market condition in South Karelia, Saimaa region.
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Introduction of topics to be covered	... During the interview, I would like to cover following themes: condition of supply of realty now and in the past time, main external and internal factors influenced the business, future expectations in the industry.
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Main questions	<ul style="list-style-type: none">• When was the first time you indicated fluctuations in sales for Russian customers in the firm?• What segments of residential property were affected the most in the industry?• Is there any inside problems during the period of downsizing sales were indicated by the company?• What can you say about following external factors?<ol style="list-style-type: none">1. Political and legal factors? (Is there any changes undertaken by governmental authorities which lead to changes in sales for the Russian customers?)
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	<p>2. Economic Factors? (What factors among: interest rates, money supply, general price level, consumer credits, currency devaluations e.t.c can you highlight as ones affected your company?)</p> <p>3. Social Factors? (Is there any social fluctuations, trends changes you see, that could affect your company?)</p> <p>4. Technological factors? (Is there any changes in technologies which could affect your business field negatively or positively?)</p> <p>5. Environmental factors? (Is there any natural or ecological factors which you think could impact sales?)</p> <p>Did they affect your company? How?</p> <p>If not – please specify Why?</p> <ul style="list-style-type: none"> • In your opinion, what are the future trends will be in the industry? • What will be different for the Russian customer?
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Conclusion of the Interview	<ul style="list-style-type: none"> • Are there any other reasons/problems which affected the industry in your opinion, which we have not discussed and that you find worrisome? • Is there anything you would like to add?
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Appendix 2

Semi-Structured Interview Plan

Potential Customer Interview Sample

Introduction of Interviewer	Hello, my name is Bochkarnikov Yan. I am the student of Saimaa UAS, and I am implementing a research concerning the realty market condition in South Karelia, Saimaa region.
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Introduction of topics to be covered	... During the interview, I would like to cover following themes: condition of demand for realty now and in the past time, main external and internal factors influenced the purchasing power, future expectations in the industry.
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Main questions	<ul style="list-style-type: none">• When have you changed your mind in purchasing decision?• What are the main determinants which were pushing you for potential purchasing realty in the country abroad? Why Finland? Why Saimaa?• What are the internal factors impacted your potential purchasing power in the negative way?<ol style="list-style-type: none">1. Tastes?2. Fashions?3. Preferences?4. Personal Income?• What can you say about following external factors? Do they affect your purchasing decision?<ol style="list-style-type: none">1. Price of the product? (Does the price and its possible fluctua-
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	<p>tions of the Finnish real estate in residential sector impact you personally?)</p> <ol style="list-style-type: none"> 2. Prices of Related Goods? (Do the fluctuations in pricing for realty in other countries affect your purchasing decision for Finland?) 3. General Price Level? (If the government will be increasing general prices in Finland for products needed for comfortable living, will it affect your choice in buying property in Finland?) 4. Policy of the company in pricing formation? (How does the policy in pricing of the company selling property in Finland can affect your purchasing decision?) 5. Technological Changes? (Is there any technological changes you see, which affecting your purchasing will for Finland?) 6. Environmental Factors? (What natural and ecological factors can you highlight that affecting you when thinking of potential purchasing the realty in Finland?) <ul style="list-style-type: none"> • Are you still considering Finland as a country for purchasing property abroad?
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Conclusion of the Interview	<ul style="list-style-type: none"> • Are there any other reasons/problems which can affect your purchasing decision for Finland in your opinion, which we have not discussed and that you find worrisome? • Is there anything you would like to add?
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